

STATEMENT OF RICHARD HELMS, DIRECTOR OF CENTRAL
INTELLIGENCE AGENCY

Mr. Chairman, we appreciate the opportunity to appear before your Subcommittee this morning to discuss H.R. 13705, a bill to amend the CIA Retirement Act of 1964 for Certain Employees.

As you are aware, Mr. Chairman, the Central Intelligence Agency Retirement Act of 1964 for Certain Employees was the outgrowth of extensive hearings by your Committee in 1963 on the Agency's need for an early retirement program. The Act covers those Agency employees who serve under conditions of service which shorten their career span. It authorizes a basis for earlier retirement than is normally possible under the Civil Service retirement system which covers the majority of our employees. It is too early to make a firm determination that this retirement system will meet all of our contemplated objectives. Our experience to date, however, has been encouraging.

Many provisions of the CIA Retirement Act were patterned after the Civil Service Retirement Act. Subsequently, a number of relevant Civil Service provisions were amended. The principal purpose of H.R. 13705 is to update the CIA Retirement Act so as to make the benefits consistent with recent improvements in other Federal retirement systems.

We are aware of the problems involved in dealing with a comprehensive legislative package this late in the Congress. H. R. 13705 has nine separate sections. All of the sections are important. However, one section deals with the purchasing power of an annuity and is of overriding importance. At this time we are asking your consideration of that section only, deferring consideration of the other sections to a more opportune time.

The principle of adjusting retirement pay based on cost-of-living increases was established in Government for the Civil Service retirement system in 1962 and for the military retirement system in 1963. This principle was embodied in the Central Intelligence Agency Retirement Act when it was passed in 1964. Soon after the cost-of-living principle had been adopted on a Government-wide basis and before any actual cost-of-living increases had been granted the formula for granting cost-of-living increase was revised. This was done first for the military retirement system late in 1965 and for the Civil Service retirement system soon thereafter. Our legislative proposal is simply to permit us to adopt the revised formula for CIA annuitants.

The revised formula reduced the period over which increases in the Consumer Price Index had to be maintained and permitted increases to be applied to retirees on a more current basis.

These changes have resulted in a significant gap between the cost-of-living increases granted under the old formula, as in the CIA Retirement Act, and the revised formula. If this gap continues much longer, I am afraid that it will substantially weaken the effectiveness of the CIA Retirement Act and inevitably create a situation adverse to the morale of the annuitants and participants involved. I strongly recommend your favorable consideration of this proposal so that the cost-of-living feature of the CIA retirement system will be in consonance with the other major Federal retirement systems.

With your permission, I should like to ask Colonel White, who as you know is the Executive Director of the Agency, to present the proposal to you in detail.

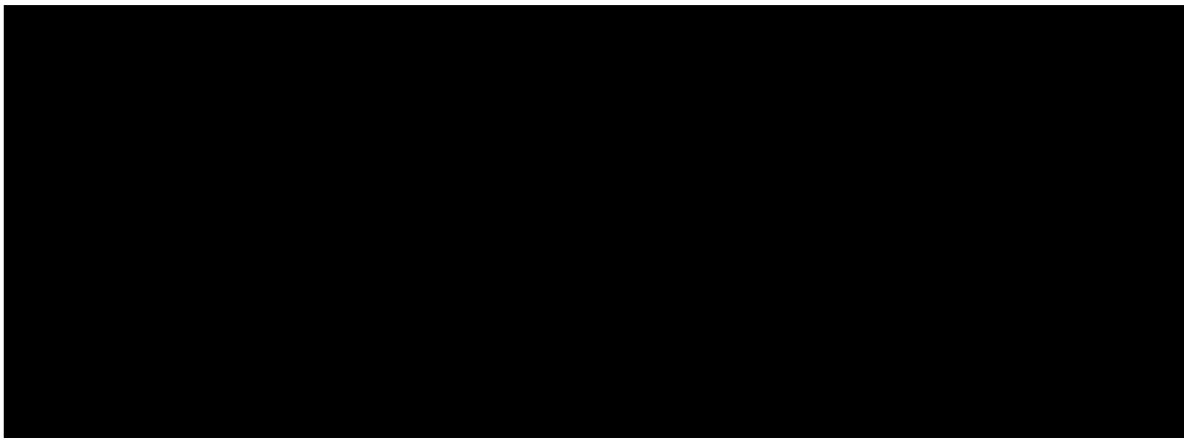
If I may, Mr. Chairman, I should like to be excused at this time in order to attend another important meeting. If you have any further questions following this hearing, I stand ready to discuss them with you at your convenience.

Thank you for giving me this opportunity to appear.

STATEMENT OF LAWRENCE K. WHITE, EXECUTIVE DIRECTOR,
CENTRAL INTELLIGENCE AGENCY

Mr. Chairman, the bill before you, H.R. 13705, proposes a number of amendments to the Central Intelligence Agency Retirement Act of 1964 for Certain Employees (P.L. 88-643, 13 October 1964). That Act was the outgrowth of extensive hearings by your Committee in 1963 on the Agency's need for an early retirement program.

H.R. 13705 contains nine sections, basically designed to update the Central Intelligence Agency Retirement Act. As the Director has indicated, one section is of immediate concern. This is Section 8 which deals with the cost-of-living formula for CIA annuitants. In weighing the respective priorities, we believe that we should pursue action on Section 8 and defer consideration of the other sections at this time.



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The purpose of Section 8 of H. R. 13705 is to bring the cost-of-living feature of the CIA retirement system into consonance with other major Federal retirement systems. Specifically, as of 1 January 1967 Section 8 increases annuities under the CIA retirement system by the same percentage increase in force and effect for comparable annuities under the Civil Service retirement system. It also authorizes future cost-of-living adjustments under the CIA retirement system to be made under the same formula which applies to military retirement pay and to Civil Service annuities.

As the Director has noted, the principle of adjusting retirement pay on the basis of increases in the Consumer Price Index was established in Government for the Civil Service retirement system in 1962 and for the military retirement system in 1963. This principle was adopted for the CIA Retirement Act when it was passed in 1964. Following the adoption of the cost-of-living principle on a Government-wide basis and before any actual increases had been granted the formula for granting these increases was modified. This was accomplished first for military retirees in late 1965 and for Civil Service retirees soon thereafter.

You will recall, Mr. Chairman, that on 11 August 1966 you reported out for the Committee a bill, H.R. 16306, which in Section 208 amended the CIA Retirement Act cost-of-living provision to bring it into line with the new cost-of-living provisions which had been approved for the benefit of Civil Service and military retirees. H.R. 16306 was approved by the House on 3 October 1966, but there was no further action before the close of the 89th Congress.

Since 1965 three cost-of-living adjustments have been granted under the Civil Service retirement system but only one increase has been granted under the CIA retirement system. The one cost-of-living increase granted under the CIA retirement system amounted to 4.6 percent and was restricted to 1965 retirees and paid on 1 April 1967. This compares with increases in force and effect under the Civil Service system of 16.8 percent (cumulative) for 1965 retirees, 9 percent for 1966 retirees, and 3.9 percent for 1967 and some 1968 retirees.

The difference in formula has contributed to an ever-widening percentage increase gap between the Civil Service and CIA retirement systems. On 1 May 1968 this gap amounted to 12.2 percent for 1965 retirees, 9 percent for 1966 retirees, and 3.9 percent for 1967 and

some 1968 retirees. Under the CIA system the next adjustment cannot become effective before 1 April 1969 and the gap may well become wider in the meantime. Knowledge of this gap inevitably has an adverse effect on the morale of annuitants and participants in the CIA system.

The disparity between the original cost-of-living formula and the new formula comes about as follows: Under the new formula for military and Civil Service when there is a 3 percent increase in the Consumer Price Index for a period of three months, the cost-of-living increase is automatic and becomes effective two months later. On the other hand, under the old formula still in the CIA system the cost-of-living for an entire calendar year must average a 3 percent increase and the actual adjustment in the annuity does not become effective until 1 April of the following year.

The CIA Retirement Act was passed in 1964 and in 1965 the Consumer Price Index did not increase sufficiently to cause an adjustment. The cumulative increases in 1965 and 1966 resulted in a 4.6 percent adjustment as of 1 April 1967 for 1965 retirees.

The annual average Consumer Price Index for 1966 was 113.1 and is the new base for determining the next rise of at least 3 percentum.

Thus, the next annuity adjustment would take place when a subsequent year annual average Consumer Price Index equaled at least 116.5. The annual average Consumer Price Index for 1967 was 116.3 and thus fell .2 short of the mark, which would have triggered an adjustment.

Almost certainly there will be an adjustment as of 1 April 1969. In theory, however, if at the end of December 1968 the Consumer Price Index should be less than 116.5, CIA annuitants would get no increase on 1 April 1969, whereas those under the Civil Service system already have it as of 1 May 1968.

The three cost-of-living adjustments produced by the more responsive Civil Service formula were a 6.1 percent increase to 1965 retirees in 1965; a 3.9 percent increase to 1965 and 1966 retirees on 1 January 1967; and a 3.9 percent increase to 1965, 1966, and 1967 and some 1968 retirees on 1 May 1968. An additional increase of 2 percent for 1965 retirees and 1 percent for 1966 retirees had been granted by P.L. 87-793 which established the cost-of-living adjustment principle for the Civil Service system.

Section 8 of the bill would, from 1 January 1967, provide the same cumulative percentage increase of annuity in force and effect for 1965 and later retirees under the Civil Service system. More specifically, Central Intelligence Agency Retirement Act retirees

whose annuities commenced prior to 2 January 1966 would receive an increase of 12.4 percent effective 1 January 1967 less the 4.6 percent increase paid 1 April 1967 under current law. Those whose annuity commenced on or between 2 January 1966 and 1 January 1967 would receive an increase of 4.9 percent from 1 January 1967. Retirees whose annuities commenced on or between 2 January 1967 and 1 May 1968 along with 1965 and 1966 annuitants would receive an increase of 3.9 percent effective 1 May 1968.

In summary, Section 8 of H.R. 13705 will conform the cost-of-living feature of the CIA Retirement Act to that found in the other major Federal retirement systems and will assure that future cost-of-living adjustments under the CIA retirement system will be precisely in phase with those granted under the Civil Service system.

This concludes my general remarks Mr. Chairman. If you desire, I would be pleased to go over each subsection of the proposal to explain its effect.

EXPLANATION OF SECTION 8 BY SUBSECTIONS

Subsection (a) provides that increases shall be based upon determinations made by the Director pertaining to percentum changes in the price index.

Subsection (a)(1) authorizes effective 1 January 1967 percentage increases of annuities under the CIA retirement system equal to those in force and effect under the Civil Service retirement system as of 1 January 1967.

Subsection (a)(2) provides for subsequent cost-of-living adjustments effective the first day of the third month beginning after the price index shows a rise of at least 3 percent for 3 consecutive months over the base month. All annuities which commence on or before such effective date will be increased by the percentage rise in the price index. An increase will be computed on the highest percent of the 3 consecutive months, adjusted to the nearest one-tenth of 1 percent. The month forming the basis for the increase will become the new base month for determining the next cost-of-living adjustment. Subsection (a)(2) will produce a 3.9 percent cost-of-living adjustment as of 1 May 1968.

Subsection (a)(2) preserves the cost-of-living adjustment principle for future retirees and survivors of deceased employees but restricts the amount of increase to only that percentage rise occurring on or after the commencing dates of their annuities.

Subsection (b)(1) guarantees that survivor annuitants shall receive the increases granted the annuitant up to the time of his death.

Subsection (b)(2) preserves for surviving children whose annuity commences after 1 January 1967 the 2 percent and 1 percent percentage increase reflected in the catch-up increase granted their parents under Subsection (a)(1).

Subsection (b)(3) provides that the fixed dollar amounts for children survivors shall be increased along with the cost-of-living adjustments granted under Section 291.

Subsection (c) offsets any cost-of-living adjustment granted prior to this amendment. This involves the 4.6 percent increase granted on 1 April 1967 to 1965 retirees and their survivors. The rise in the Consumer Price Index on which the 4.6 percent increase was based is covered by the catch-up increase provided under subsection (a)(1).

Subsection (d) changes the definition of the term "price index" from the annual average of the Consumer Price Index over a calendar

year to that published monthly by the Bureau of Labor Statistics. It further defines the month used in determining that the price index warrants a cost-of-living adjustment as the "base month." The base month for the next increase, if any, is February 1968 which is established as a result of the operation of subsection (a)(2).

Subsection (e) retains the usual language precluding an increase on any additional portion of annuity that was purchased by a retiree by voluntary contributions.

Subsection (f) retains the customary requirement that the monthly annuity, as increased, be adjusted to the nearest dollar. It provides, however, for reflecting an increase of at least \$1 per month wherever an increase would not otherwise cause a small annuity to be adjusted to the next higher dollar.

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